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Message Text

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INFO OCT-01 ARA-11 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 L-03 MC-02 DODE-00 RSR-01 FAA-00

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R 161400 Z JUN 73
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 8216
AMCONSUL SAO PAULO
INFO AMCONSUL RIO DE JANEIRO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 3752

E. O. 11652: N/ A
TAGS: ETRD BR
SUBJECT: AIRCRAFT SALE TO VASP

REF: SAO PAULO 1095, 1266 AND 1288

1. SUMMARY: PROBLEMS HAVE ARISEN IN SALE OF US MANUFACTURED METRO AIRCRAFT TO VASP. EMBRAER, BRAZILIAN COMPANY, IS PRODUCING BANDEIRANTE AIRCRAFT WHICH THEY CLAIM CAN PROVIDE SERVICE EQUIVALENT TO THAT OF METRO. PERMISSION TO IMPORT METRO HAS NOT BEEN GRANTED PRIMARILY AS RESULT OF AIR MINISTRY ACTION. AIR ATTACHE HAS DISCUSSED ISSUE WITH SENIOR AIR MINISTRY OFFICIAL. AIR MINISTRY HAS NOT MADE FIRM DECISION TO REFUSE IMPORTS.

2. EMBASSY ADVISING THAT CASE BE RESUBMITTED WITH DETAILED PRESENTATION JUSTIFYING POSITION THAT BANDEIRANTE AIRCRAFT WILL NOT PERMIT ECONOMIC OPERATION. END SUMMARY.

3. EMBASSY RECEIVED REPORTS FROM CONGEN SAO PAULO CONTAINING FOLLOWING INFO: CONGEN APPROACHED BY REPRESENTATIVE
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OF SWEARINGEN AVIATION CORPORATION, A SUBSIDIARY OF FAIRCHILD INDUSTRIES, WITH REQUEST FOR EMBASSY ASSISTANCE WITH GOB AUTHORITIES IN FACILITATING AIRCRAFT SALE TO VASP.

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4. SWEARINGEN AND VASP HAVE NEGOTIATED A CONTRACT FOR THE PURCHASE OF SIX " METRO AIRCRAFT" (VALUE $5.5 MILLION) WITH AN OPTION TO PURCHASE FIVE MORE. VASP ALSO PLANS TO PURCHASE SIX BANDEIRANTE AIRCRAFT FROM EMBRAER. THIS FLEET OF SMALL COMMERCIAL AIRCRAFT WOULD BE USED TO PROVIDE " THIRD- LEVEL COMMUTER SERVICES" TO INTERIOR OF SAO PAULO AND NEIGHBORING STATES. VASP HAS BEEN UNDER STRONG POLITICAL PRESSURE TO PROVIDE SUCH SERVICES AS PART OF THE STATE' S AND GOB' S TO PROGRAM TO PROVIDE TRANSPORT TO INTERIOR BUT HAS DRAGGED ITS FEET BECAUSE SUCH SERVICE IS NOT PROFITABLE.

5. ACCORDING TO REPRESENTATIVE, CARLOS VINCENT RIBEIRO, VASP WOULD PREFER TO PURCHASE ENTIRE FLEET OF MORE MODERN AND ECONOMICAL METRO AIRCRAFT BUT FOR OBVIOUS REASONS MUST PURCHASE BANDEIRANTE AS WELL. THIS ARRANGEMENT-- PURCHASE OF SIX METROS AND SIX BANDEIRANTES-- IS FULLY ACCEPTABLE TO AMERICAN COMPANY AS BEST OBTAINABLE DEAL UNDER CURRENT CIRCUMSTANCES.

6. SERIOUS PROBLEM AROSE, HOWEVER, IN FORM OF A REQUEST BY EMBRAER TO HAVE BANDEIRANTE CLASSIFIED AS A " NATIONAL SIMILAR." SUCH A RULING WOULD PRECLUDE NOT ONLY THIS IM- MEDIATE SALE BUT ALSO FUTURE SALES BY FAIRCHILD AND OTHER AMERICAN COMPANIES SUCH AS KING AIR (IT WOULD NOT AFFECT SMALLER PIPERS AND CESSNAS.) RIBEIRO ESTIMATES THAT THE IMPACT OF THIS DECISION ON LIKELY US EXPORTS TO BRAZIL IS ON THE ORDER OF $20 MILLION.

7. VALUE OF SIX INITIAL AIRCRAFT AND SPARES IN $5.5 MILLION. SALE AND OPTION TO PURCHASE FIVE ADDITIONAL AIRCRAFT WITH SPARES IS VALUED AT $4.5 MILLION. ACCORDING TO REP THERE IS FIRM INTENTION TO EXERCISE OPTION AND VASP WOULD HAVE ORDERED 11 METROS ORIGINALLY BUT, AS A MATTER OF TACTICS, COULD ONLY SECURE GOB APPROVAL FOR MAXIMUM OF SIX AT A TIME. AS TO VALUE OF OVERALL US EXPORTS WHICH MIGHT BE AFFECTED, COMPANY REP STATED THAT
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IT MAY REACH $20 MILLION IF 1973/74 INCLUDED AS WELL AS POTENTIAL SALES OF EXECUTIVE TYPE TURBOPROP AIRCRAFT BY HIS COMPANY AND OTHER AMERICAN COMPANIES.

8. FIARCHILD- SWEARINGEN REP STATES THAT VASP PRESIDENT ROSSI HAS AN AMBIVALENT POSITION. HIS FIRST CHOICE WOULD BE NOT TO HAVE ANY THIRD- LEVEL COMMUTER SERVICE BECAUSE THIS IS A DRAIN ON VASP' S PROFITS; HOWEVER, IF THIS SERVICE IS REQUIRED, IT IS IN HIS INTEREST TO PUSH FOR THE MORE ECONOMICAL METRO AIRCRAFT. REP FEARS, HOWEVER, THAT ROSSI MAY WELCOME A TURN DOWN OF THE METRO APPLICATION IN ORDER TO SCUTTLE WHOLE IDEA OF NEW

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SERVICE BASED ON HIGH COST OF BANDEIRANTE. ANOTHER FACTOR,
HE CLAIMS, IS THE POSSIBILITY THAT IN THE NEAR FUTURE
ROSSI MAY BE ASKED TO HEAD EMBRAER. IN ANY EVENT,
REP IS ACTIVELY WORKING WITH CONTACTS IN APPROPRIATE AGENCIES.

9. BREAK- EVEN POINT. REP STATED THAT FOR AVERAGE USE,
METRO' S BREAK- EVEN POINT IS 50 PERCENT OCCUPANCY. HOWEVER,
THE MOST AUTHORITIIVE FIGURES FOR USE IN DISCUSSING
THIS CASE WITH GOB OFFICIALS ARE THOSE BASED ON DAC STUDY
PREPARED BY WILLIAM RAWZAK, CHIEF OF AIRCRAFT EVALUATION,
DAC, WHICH WERE TAILORED TO PURPOSES AND CONDITIONS UNDER
WHICH VASP INTENDS TO USE AIRCRAFT. THESE DATE WERE
FOFFICIALY ACCEPTED BY BOTH CONTAC AND VASP AND WERE USED
AS BASIS FOR ORIGINAL CONTAC DECISION. ACCORDING TO DAC
STUDY THE METRO, WITH AN 18 - SEAT CONFIGURATION, USED UNDER
CONDITIONS ENVISAGED ON VASP ROUTES, HAS A 70 PERCENT
OCCUPANCY BREAK - EVEN POINT. BY COMPARISON, THE BANDEIRANTE
HAS A 110 TO 120 PERCENT BREAK- EVEN POINT (DEPENDING ON
VARIABLES). IN OTHER WORDS, EVEN FLYING FULL CAPACITY,
AIRCRAFT WILL LOSE MONEY GIVEN FLIGHT CONDITIONS APPLICABLE
VASP TERTIARY ROUTES. THIS IS BECAUSE BANDEIRANTE WHICH
DESIGNED FOR 14 PASSENGERS CAN CARRY AVERAGE OF ONLY 12
PASSENGERS OVER COURSE OF YEAR ON VASP ROUTES DUE TO REDUCED
MAXIMUM ALLOWABLE TAKE- OFF WIGHT DURING HOT MONTHS OF YEAR.

10. US CONTENT IN BANDEIRANTE. REP STATED THAT THERE IS
A COMMON MISCONCEPTION THAT PRATT AND WHITNEY ENGINES USED
IN BANDEIRANTE AIRCRAFT COME FROM US. THIS IS INCORRECT.
THE PT-6 ENGINE USED IN THE BANDEIRANTE IS PRODUCED
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AND EXPORTED BY UNITED AIRCRAFT OF CANADA LTD. THIS
IS AN AMERICAN COMPANY LOCATED IN CANADA WHOSE ENGINES
ARE PRODUCED IN AND EXPORTED FROM CANADA. (HE SAID
CONFUSION HEIGHTNED BY FACT THAT IMPORTATION OF P& W SPARE
PARTS CARRY US AS COUNTRY OF ORIGIN ON COMMERCIAL INVOICE,
ALTHOUGH IN FACT SPARE PARTS ARE ALSO MADE IN CANADA,
BUT OFTEN TRANS- SHIPPED THROUGH THE US.) REP EMPHATIC
ON THIS POINT SINCE HIS COMPANY ALSO HANDLES THE SALE OF
P& Q SPARE PARTS TO VASP, CRUZIERO, SELMA, ETC. WITH
REGARD TO BANDEIRANTE ENGINE, HOWEVER, HE MAINTAINED
THIS IS CLEARLY A CANADIAN PRODUCT AND CANADIAN EXPORT.

11. LAW OF SIMILARS. REP STATED THAT, SO FAR AS HE KNEW,
THERE HAS BEEN NO OFFICIAL SIMILARS RULING ON IMPORTATION
OF A TURBOPROP AIRCRAFT SUCH AS METRO. HE SATED THAT,
ACCORDING TO RUMORS CIRCULATING IN THE INDUSTRY NOW,
EMBRAER WILL ATTEMPT TO CIRCUMVENT SIMILARS PROCEDURE
AND INSTEAD WILL SEEK A " PORTARIA" PROHIBITING THE IMPORT
ATION OF TURBOPROPS IN THE 8 TO 25- SEAT CAPACITY RANGE.
HE OPINED THAT EMBRAER MAY BE FOLLOWING THIS TACTIC

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BECAUSE OF DIFFICULTY IN MEETING SIMILARS CRITERIA DUE
TO POOR PERFORANCE CHARACTERISTICS OF BANDEIRANTE COMPARED
TO FOREIGN TURBOPROPS OF THIS CLASS.

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ACTION EB-11

INFO OCT-01 ARA-11 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

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AMCONSUL SAO PAULO
INFO AMCONSUL RIO DE JANEIRO

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12. US COMPANY REP NOTED THAT AT MAY 29 MEETING OF CONTAC
ATTENDED BY BRIGADEIROS BORDAUX, ABREU COUTINHO, MOUSSAD
AND REPS OF MINISTRIES FINANCE, PLANNING, BANCO DO BRASIL
AND BNDE, UNANIMOUS APPROVAL GIVE, WITH ONLY BNDE ABSTAIN-
ING, TO PURCHASE OF SIX METRO AIRCRAFT WITH OPTION FOR
FIVE MORE AND TO PURCHASE SIX BANDEIRANTES WITH OPTION
FIVE MORE. DECISION THEN REFERRED TO AIR MINISTER FOR
" RATIFICATION". AIR MINISTER RATIFIED BANDEIRANTE PURCHASE
JUNE 5 BUT LEFT PROPOSED METRO PURCHASE " PENDING," WHICH
US REP INTERPRETS AS A DE FACTO DENIAL.

13. ACCORDING TO REP, THREE BRIGADEIROS ON CONTAC FURIOUS
AT REVERSAL OF THEIR DECISION AND IN RETALIATION HAVE
RETURENED " FOR FURTHER STUDY" BRAZILIAN COFFEE BOARD PROPOSAL
FOR PURCHASE OF $850,000 KING AIR A-100 EXECUTIVE AIRCRAFT
TO BE USED BY MINISTER PRATINI (KING AIR MODEL SIMILAR TO ONE
USED BY DELFIM), ONE FACTOR IN DECISION REPORTEDLY IS FAB' S DIS-
ENCHANTMENT WITH BANDEIRANTE AIRCRAFT AND THUS THEIR ATTEMPT
TO SHIFT TO OTHER SOURCES SOME PART OF THE 80 BANDEIRANTES
WHICH FAB HAD AGREED TO PURCHASE. IN ADDITION, CEL. OZIRES
OF EMBRAER REPORTEDLY LOBBIED HARD WITH AIR MINISTER AGAINST
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APPROVAL OF METRO. IN ANY EVENT, US REP FEARS THAT DIE IS CAST SO FAR AS FUTURE CIVILIAN PROCUREMENT OF THIS LEVEL OF EXECUTIVE AIRCRAFT IS CONCERNED AND THAT AS A RESULT HIS COMPANY AND SEVERAL OTHER US COMPANIES WHICH NOW ENJOY LUCRATIVE MARKET IN BRAZIL FACE A BLEAK FUTURE.

14. AFTER RECEIPT OF ABOVE INFORMATION FROM SAO PAULO, AIR ATTACHE DISCUSSED ISSUE WITH CHIEF OF CABINET OF AIR MINISTER. HE PROVIDED FOLLOWING INFORMATION. AIR MINISTRY DOES WISH TO TRY TO GIVE PREFERRED PRIORITY IN BRAZILIAN MARKET TO BANDEIRANTE. EMBRAER IS NEW AND FRAGILE COMPANY AND HAS TO HAVE SOME GOVERNMENT ASSISTANCE. AIR FORCE PURCHASE OF BANDEIRANTE REMAINS FIRM. AIR FORCE NOT DISILLUSIONED WITHAIRCRAFT AND IS STILL HOPING FOR EARLY DELIVERY. (WE HAVE LEARNED FROM OTHER SOURCES THAT SOME SQUADRON LEADERS ARE UNEASY ABOUT CIVILIAN PURCHASES BECAUSE IT MAY DELAY DELIVERIES.) AIR MINISTRY FEELS THAT SINCE BANDEIRANTE IS A NATIONAL AIRCRAFT, THE FOUR SCHEDULED AIRLINES OPERATING WITHIN BRAZIL SHOULD BE PURCHASING AND USING IT FOR SHORT HAULS. THERE IS NO INTENTION, HOWEVER, OF PREVENTING SALE OF FOREIGN AIRCRAFT TO PRIVATE BUYERS, EVEN INCLUDING AIR TAXI SERVICE COMPANIES SUCH AS LIDER. THE POLICY OF ENCOURAGING PURCHASE OF BANDIERANTE APPLIES ONLY TO SCHEDULED LINES.

15. WITH REFERENCE TO THE PARTICULAR SALE OF THE METROS TO VASP, AIR MINISTRY OFFICIAL STATES, IT IS NOT TRUE THAT ONLY THE BNDE OPPOSED THE RECOMMENDATIONS MADE BY VASP. THERE WERE DIVIDED VIEWS. (WE COULD NOT OBTAIN ANY FURTHER DETAILS ON THE POSITIONS OF THE ORGANIZATIONS INVOLVED.) THE CASE JUSTIFYING THE VASP PURCHASE OF METROS WAS NOT A GOOD ONE AND WAS, THEREFORE, REJECTED. THE MINISTRY IS PREPARED TO EXAMINE A MORE DETAILED PRESENTATION TO DETERMINE IF IN FACT THE METROS SHOULD BE PURCHASED.

16. BRAZILIAN OFFICIAL SHOWED COPY OF MESSAGE SENT BY MINISTRY EXPLAINING ITS POSITION. MESSAGE STATES THAT BANDEIRANTE CAN, OF COURSE, ALWAYS BE PURCHASED. JUDGMENT ON THE PURCHASE OF METRO AIRCRAFT, HOWEVER, IS BEING WITHELD UNTIL THERE IS A RESUBMISSION OF A MORE DETAILED PRESENTATION SO THAT A BETTER EVALUATION AND JUDGMENT

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CAN BE MADE.

17. COMMENT: WHILE EVEN THE BEST CASE MAY PERHAPS BE TURNED DOWN, EMBASSY BELIEVES THAT IT IS DESIRABLE FOR A MORE DETAILED PRESENTATION TO BE MADE. AFTER RESUBMISSION WE WILL FOLLOW- UP ONCE AGAIN TO DETERMINE WHAT FURTHER STEPS MAY BE ADVISABLE.

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Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
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